

Tennessee Education Lottery Estimates for Net Lottery Proceeds (Fiscal Years 2008-09 and 2009-10)

Presented to: The State Funding Board
Presented by: Robert N. Currey, Fiscal Review
Wednesday, December 3, 2008

Presentation Outline

- **FY08-09 Estimates presented on April 29, 2008**
 - **FY08-09 Revised Assumptions**
 - **FY08-09 Year-to-date performance measures**
 - **Factors that impact lottery ticket sales**
 - **Revised Estimates for FY08-09**
-
- **FY09-10 Assumptions**
 - **FY09-10 Estimates**

RANGE ESTIMATES FOR FY08-09 (as of 4/29/2008)

Revenue Source	Low	Median	High
Instant Games (Net)	\$728,228,000	\$732,866,000	\$737,503,000
Cash 3 & Cash 4	\$81,536,000	\$81,740,000	\$81,944,000
Pick 5	\$24,206,000	\$24,479,000	\$24,752,000
Lotto Plus	\$20,800,000	\$23,400,000	\$26,000,000
Powerball	\$153,655,000	\$157,208,000	\$160,761,000
Hottrax Champions	\$1,872,000	\$2,028,000	\$2,184,000
Million Dollar Madness 3.0	\$0	\$0	\$0
Misc. Revenue	\$6,000,000	\$6,500,000	\$7,000,000
Total Net Revenue	\$1,016,297,000	\$1,028,221,000	\$1,040,144,000
Total Expenses (73.25%)	\$744,400,000	\$753,200,000	\$761,900,000
NET LOTTERY PROCEEDS (26.75%)	\$271,897,000	<u>\$275,021,000</u>	\$278,244,000
After-School Programs	\$9,000,000	\$9,500,000	\$10,000,000
TOTAL STATE PROCEEDS	\$280,897,000	<u>\$284,521,000</u>	\$288,244,000

FY08-09 Revised Assumptions

1. In April, it was assumed that no matrix changes would occur for Powerball, Pick 5, or Lotto Plus for the remainder of FY08-09.

Revision: A Powerball matrix change will occur on 01/04/2009.

2. In April, it was assumed that the prize payout ratio for all instant game products would remain at approx. 65.0% of sales.

Revision: the prize payout ratio for instant games will increase slightly to approximately 65.5% of sales.

3. In April, it was assumed that the game dynamics for Cash 3 and Cash 4 would remain unchanged.

Revision: A “lucky sum” component will become part of the two online games on 12/08/2008.

4. In April, it was assumed that HotTracs Champions would be offered throughout the remainder of FY08-09.

Revision: HotTracs will end 12/31/2008.

5. In April, Total Expenses were estimated to be 73.25% of total net revenue.

Revision: Estimate changed to 73.0 % of total net revenue.

6. In April, Net Lottery Proceeds were estimated to be 26.75% of total net revenue.

Revision: Estimate changed to 27.0% of total net revenue.

Monthly Sales - YTD

(through October 31, 2008)

	07-01-07 through 10-31-07	07-01-08 through 10-31-08	Dollar Difference	Percent Change
Instant Games (Gross)	\$250,190,544	\$253,795,354	\$3,604,810	1.44%
Cash 3	\$20,843,073	\$18,690,462	-\$2,152,611	-10.33%
Cash 4	\$7,988,474	\$7,683,535	-\$304,939	-3.82%
Powerball	\$54,286,081	\$41,930,573	-\$12,355,508	-22.76%
Pick 5 & Lotto Plus	\$9,355,072	\$13,336,162	\$3,981,090	42.56%
HotTrax	\$839,682	\$570,352	-\$269,330	-32.08%
Million Dollar Madness	\$56,660	\$0	-\$56,660	-100.00%
Gross Ticket Sales	\$343,559,586	\$336,006,438	-\$7,553,148	-2.20%

Gross sales since 10/31/2008

<u>Source</u>	Week Ending 11-08-2008 vs. 11-10-2007	Week Ending 11-15-2008 vs. 11-17-2007	Week Ending 11-22-2008 vs. 11-24-2007	Week Ending 11-29-2008 vs. 12-01-2007
<i>Instant Games (Gross)</i>	-1.88%	-3.86%	-6.10%	-6.47%
<i>Cash 3</i>	-1.12%	-5.61%	-5.70%	-6.47%
<i>Cash 4</i>	10.00%	6.19%	7.12%	0.07%
<i>Powerball</i>	-28.49%	-35.54%	-37.89%	-40.34%
<i>Pick 5 & Lotto Plus</i>	78.78%	46.49%	78.45%	68.92%
<i>HotTrax Champions</i>	-35.44%	-24.38%	-35.24%	-46.78%
<i>Million Dollar Madness</i>	-100.00%	-100.00%	-100.00%	-100.00%
Overall	0.43%	-5.12%	-6.24%	-10.33%

Expenses & Net Lottery Proceeds

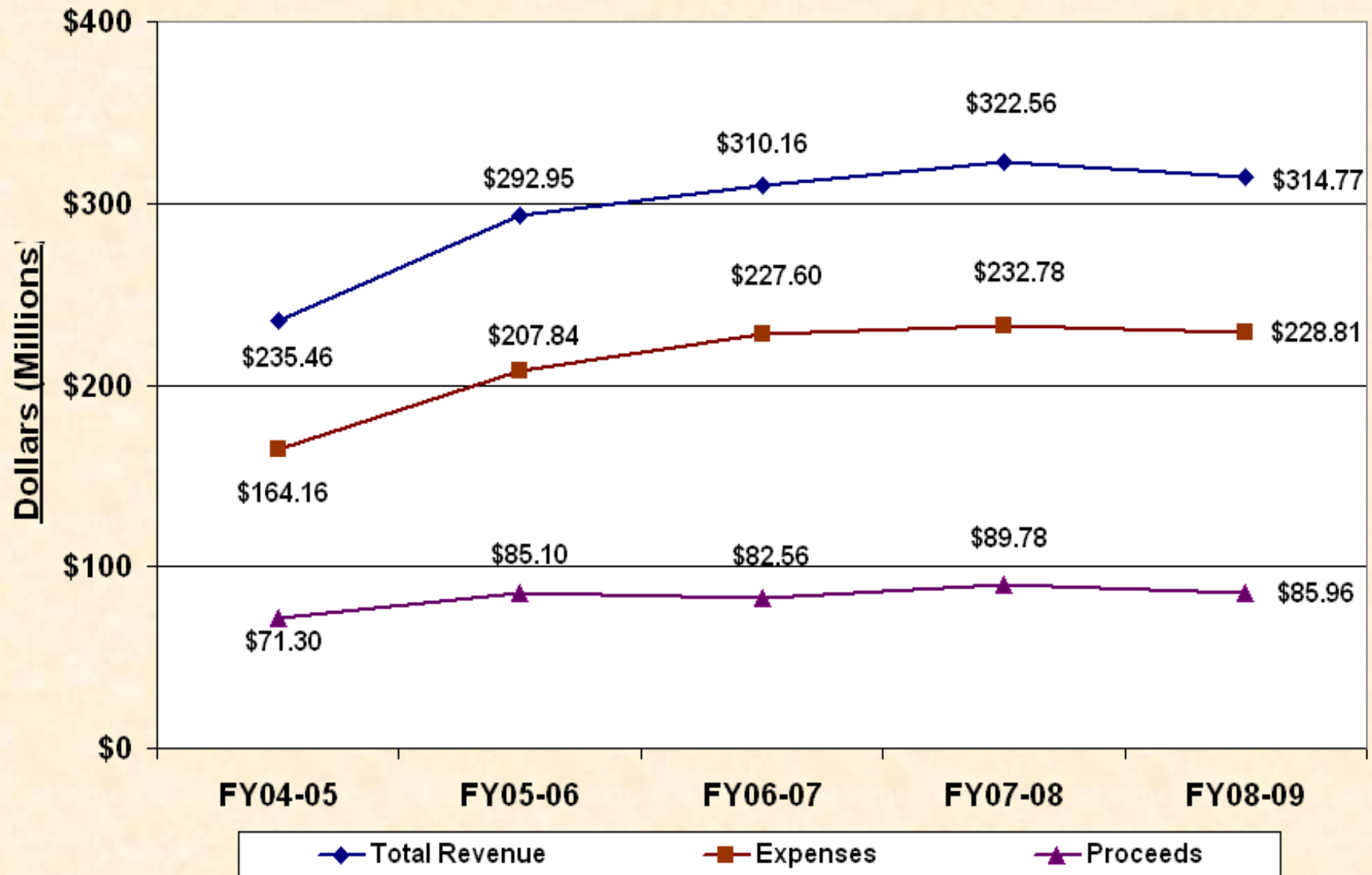
- *Expenses:*

- Jul 07 thru Oct 07: \$232,775,813
- Jul 08 thru Oct 08: \$228,811,486
- A decrease of 1.70%

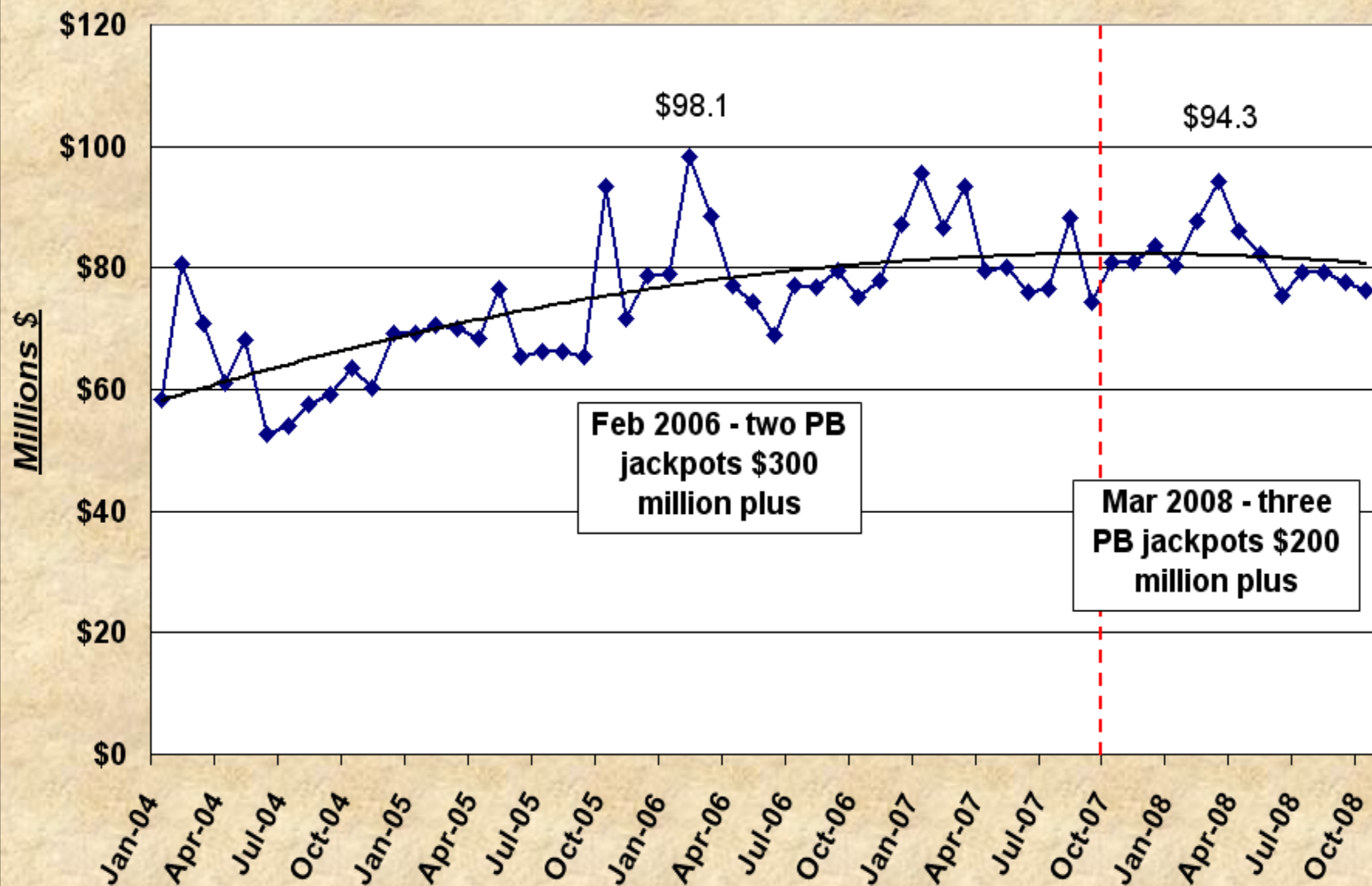
- *Net Lottery Proceeds:*

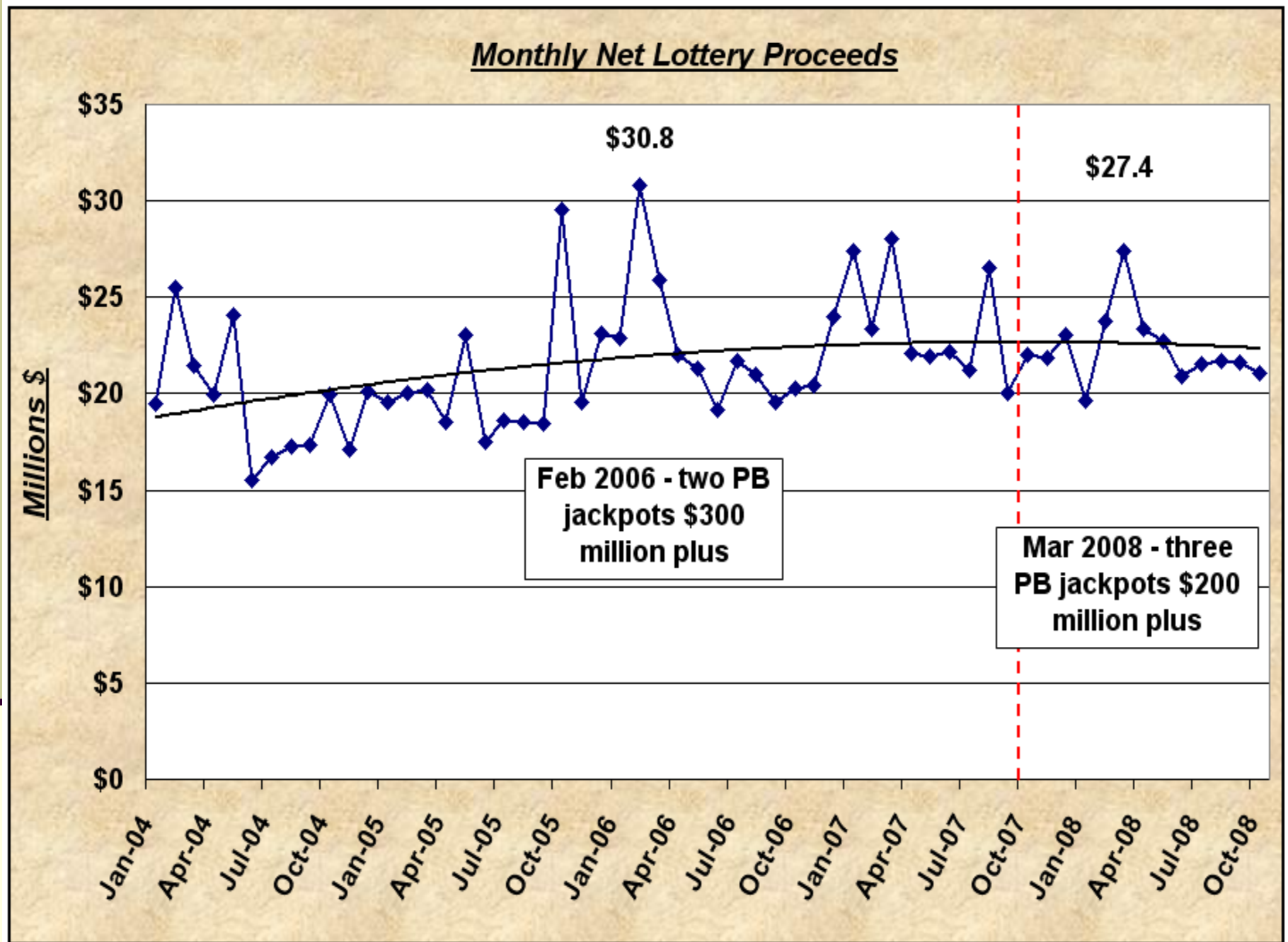
- Jul 07 thru Oct 07: \$89,779,797
- Jul 07 thru Oct 07: \$85,955,145
- A decrease of 4.26%

Total Revenue (Net), Total Expenses, and Net Lottery Proceeds
(July thru Oct)



Monthly Total Net Ticket Sales





Factors expected to impact sales for the remainder of FY08-09

- Factors that may generate incremental sales:
 - Powerball matrix change
 - “Lucky sum” component for Cash 3 & Cash 4
 - If current gas prices are sustainable
 - Increasing prize payout ratio for instant games...(?)
 - Consumer confidence...(?)

- Factors that may hinder growth:
 - Increasing the prize payout ratio for instant games...(?)
 - Consumer confidence...(?)
 - Rising unemployment
 - Future gas prices
 - **Overall state of the economy**

REVISED - RANGE ESTIMATES FOR FY08-09 (as of 12/03/2008)

Revenue Source	Low	<u>Median</u>	High
Instant Games (Net)	\$716,320,000	\$730,170,000	\$744,030,000
Cash 3	\$56,220,000	\$56,800,000	\$57,370,000
Cash 4	\$22,910,000	\$23,120,000	\$23,330,000
Pick 5	\$13,880,000	\$14,270,000	\$14,670,000
Lotto Plus	\$19,600,000	\$21,170,000	\$22,740,000
Powerball	\$143,640,000	\$149,940,000	\$156,250,000
Hottrax Champions	\$870,000	\$875,000	\$880,000
Misc. Revenue	\$5,600,000	\$6,100,000	\$6,600,000
Total Net Revenue	\$979,040,000	\$1,002,445,000	\$1,025,870,000
Total Expenses (73%)	\$714,700,000	\$731,780,000	\$748,890,000
NET LOTTERY PROCEEDS (27%)	\$264,340,000	<u>\$270,665,000</u>	\$276,980,000
After-School Programs	\$11,500,000	\$12,500,000	\$13,500,000
TOTAL STATE PROCEEDS	\$275,840,000	<u>\$283,165,000</u>	\$290,480,000

FY09-10 Assumptions

- No additional matrix changes for Powerball, Pick 5, or Lotto Plus during FY09-10.
- Drawing frequencies will remain unchanged for Powerball, Pick 5, Lotto Plus, Cash 3, and Cash 4 during FY09-10.
- No other new games will be launched during FY09-10 (excluding new instant games).
- All other game fundamentals will remain unchanged.
- Prize payout ratio for instant games will remain at 65.5%.
- 1.0% sales growth for instant games.
- Zero (flat) growth for Cash 3, Cash 4, and Pick 5.
- 4.0% sales growth for Powerball.
- Total Expenses are estimated to be 73.1% of total net revenues.
- Net Lottery Proceeds are estimated to be 26.9% of total net revenues.

NEW - RANGE ESTIMATES FOR FY09-10 (as of 12/03/2008)

Revenue Source	Low	Median	High
Instant Games (Net)	\$723,480,000	\$737,470,000	\$751,470,000
Cash 3	\$56,220,000	\$56,800,000	\$57,370,000
Cash 4	\$22,910,000	\$23,120,000	\$23,330,000
Pick 5	\$13,880,000	\$14,270,000	\$14,670,000
Lotto Plus	\$16,000,000	\$18,200,000	\$20,400,000
Powerball	\$149,390,000	\$155,940,000	\$162,500,000
Hottrax Champions	\$0	\$0	\$0
Misc. Revenue	\$5,500,000	\$6,100,000	\$6,600,000
Total Net Revenue	\$987,380,000	\$1,011,900,000	\$1,036,340,000
Total Expenses (73.1%)	\$721,770,000	\$739,700,000	\$757,560,000
NET LOTTERY PROCEEDS (26.9%)	\$265,610,000	<u>\$272,200,000</u>	\$278,780,000
After-School Programs	\$11,500,000	\$12,500,000	\$13,500,000
TOTAL STATE PROCEEDS	\$277,110,000	<u>\$284,700,000</u>	\$292,280,000

Revenue Source	FY07-08 Actual	FY08-09 Estimate	FY09-10 Estimate
Instant Games (Net)	\$721,415,718	\$730,170,000	\$737,470,000
Cash 3	\$59,264,078	\$56,800,000	\$56,800,000
Cash 4	\$23,343,824	\$23,120,000	\$23,120,000
Pick 5	\$22,870,206	\$14,270,000	\$14,270,000
Lotto Plus	\$8,060,290	\$21,170,000	\$18,200,000
Powerball	\$149,489,495	\$149,940,000	\$155,940,000
Hottrax Champions	\$2,296,454	\$875,000	\$0
Million Dollar Madness	\$3,842,070	\$0	\$0
Misc. Revenue	\$5,991,401	\$6,100,000	\$6,100,000
Total Net Revenue	\$996,573,536	\$1,002,445,000	\$1,011,900,000
Total Expenses	\$724,157,969	\$731,780,000	\$739,700,000
NET LOTTERY PROCEEDS	\$272,415,567	\$270,665,000	\$272,200,000
Percent Change in NLP	0.16%	-0.64%	0.57%
After-School Programs	\$13,724,640	\$12,500,000	\$12,500,000
TOTAL STATE PROCEEDS	\$286,140,207	\$283,165,000	\$284,700,000